

# FCA acts to comply with emergency Farm Credit law

McLEAN, VA — The Farm Credit Administration (FCA) has taken a series of actions to ensure rapid implementation of the Farm Credit Amendments Act of 1985, which became effective January 23.

"The law is straightforward in describing the information to which borrowers are entitled, and those provisions can be implemented before regulations are issued," said Donald E. Wilkinson, acting chairman of FCA. "The provisions dealing with actions on loan applications do not require regulations and are also effective immediately," he said.

The agency also directed system institutions to conserve their financial resources so they will be able to marshal those resources to help manage the current financial difficulty.

Wilkinson reminded system officials that full use must be made of internal financial resources before outside assistance is

requested.

### Rights of Applicants

"When a borrower obtains a loan, the law requires the disclosure of the interest rate, including examples of how the rate is affected by the purchase of stock or participation certificates. If it's a variable rate loan, the borrower must be told how much and how often the interest rate can go up during the term of the loan. And if there are no limitations, the factors that go into determining rate adjustments, including the cost of funds, operating expenses, and provisions for loan losses must be disclosed," Wilkinson said.

In addition, he explained, an applicant whose request for credit has been denied or reduced is entitled to a review by a credit committee that includes farmer board representation. The review must take place within 30 days after the applicant requests it. And the review committee's decision and the reasons for it must be

promptly provided to the applicant in writing.

Wilkinson noted that the law further requires that borrowers be provided with copies of all documents they have signed as part of their loan transactions, as well as with copies of the articles of incorporation and by-laws of the institution.

"These provisions are designed not only to give borrowers essential information when obtaining loans, but to offer them a measure of protection once the loans have been made," Wilkinson said.

### Conserving Resources

The Farm Credit Administration has taken certain steps to make

sure that healthier system institutions do not take actions that would reduce the resources available to the system as a whole.

System institutions may not take the following actions, without approval of the FCA:

- \* extraordinary operating and capital expenditures that are within the control of management or boards of directors and in excess of \$250,000;

- \* major changes that increase the cost of employee benefit and pension plans or major changes in depreciation procedures;

- \* repurchase of unmatured debt instruments;

- \* payment of an interest rate on member funds held by a district

bank in an amount that exceeds the member's loan rate; and

- \* charging an interest rate by any Production Credit Association that is less than it is paying for money from the Federal Intermediate Credit Bank.

System officials were also reminded that all provisions of the allowance for losses accounts are to be in compliance with generally accepted accounting principles. And they were cautioned that these provisions would be reviewed by FCA examiners.

The agency also expressed concern over changes in interest rates by system institutions. It said proposed changes would be evaluated in the light of the in-

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## Dairy Pipeline

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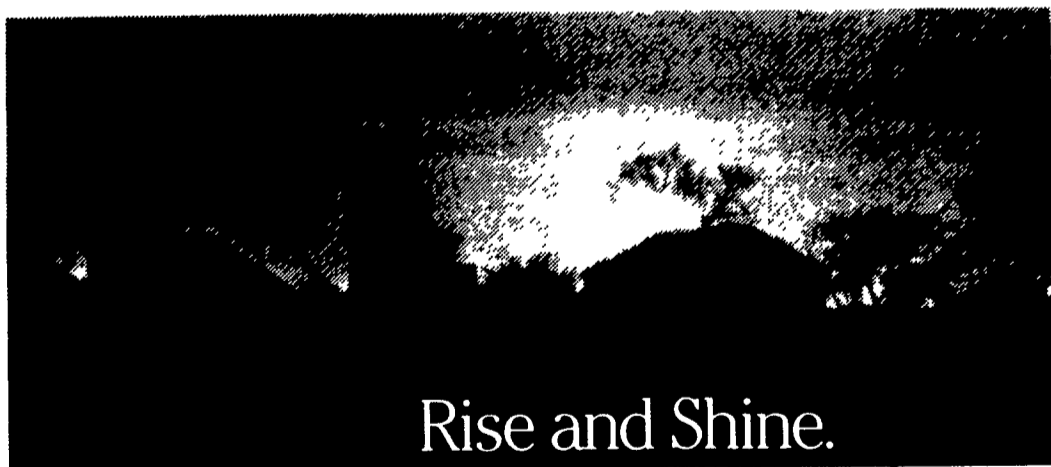
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